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FINANCIAL TIMES

This week's Best of Lex

20 December 2013

Exclusively for Premium Subscribers

Letter from Lex: Facebook and fun e-money

The Chinese government does not like Bitcoin. First, the People's Bank of China stopped financial institutions from handling it. Now, this week, the central bank effectively stopped Chinese citizens from turning their renminbi into it. The latest Chinese move – which more or less bans new deposits at BTC China, the world's biggest Bitcoin exchange by volume – sent the price of one Bitcoin outside China down by a third, below $500 after a 900 per cent run-up this year to above $1,200 at the end of November. This sounds like a bubble popped by the ultimate test of government hostility: China's determination to control the amount of capital that can leave its borders. But investors should like Facebook even though founder Mark Zuckerberg is selling 41m shares. (He will keep a majority of the voting interest.) Shares have doubled this year on the basis of revenue growth that has shocked and delighted Wall Street. But at some point, perhaps even next year, the $120bn company's growth will let up; but when this happens, Facebook's amazing profitability will remain.

In banking, the EU's proposed banking union is not having an easy birth. The latest deal outlines how failing eurozone banks will be dealt with. There will eventually be a €55bn resolution fund, use of which will be decided by a cast of well over 100 people, a system that is far from ideal. When a bank needs rescuing, a small group acting decisively is better than a collection of politicians, bureaucrats and regulators all trying to have their say. Meanwhile, after leaving Barclays under a cloud in July 2012, Bob Diamond has re-emerged with a $325m cash shell that is floating in London. African banks, especially those involved in business lending, are likely to be the targets. There are reasons to be wary – the structure of the vehicle. A lot of equity issuance could be on the way. But opportunities in banking are few and far between and there are worse places to start than Mr Diamond.

For M&A, it is far from clear that the rumoured tie-ups of Sprint and T-Mobile or Charter and Time Warner Cable would, at this stage, solve more operational problems than they would create. T-Mobile's controlling shareholder, Deutsche Telekom, may want out of the US market. And a TWC buyout would save its shareholders from suffering though a turnround. The SoftBank and Charter bosses, for better or worse, love dealmaking. But shareholders in any potential acquirer might not share their enthusiasm, or their patience. Investors were enthusiastic about Avago's deal to buy LSI for $6.6bn, sending the buyer's shares up. There is a simple reason why: it will be very accretive to Avago's earnings. But it is worth sorting out why. The most important reason has a name: Ben Bernanke. The previously debtless Avago will assume $4.6bn in debt in doing the deal, but it thinks the interest level on the debt will be just 3.6 per cent – a gift of the Fed's easy money policies.

Email the Lex team in confidence at lex@ft.com.

Best of Lex articles

Bitcoin: a bit risky

The fall in Bitcoin's market capitalisation – to $9bn – sounds like a bubble popped by the ultimate test of government hostility.

Facebook: profits to like

Growth may slow starting next year. But its immense profits should be a cushion for the shares.

EU banking union: progress of sorts

Another late-night compromise, another fudge, but progress of sorts. But the new system is far from ideal.

Bob's back: back Bob?

Bob Diamond, the former chief executive of Barclays, is back with a cash shell aiming to invest in Africa. Is he worth backing?.

US communications M&A: stay on the line

Deal fever is obscuring issues consolidation will not address. Mobile mergers are also tricky – network technologies, strategies and customer bases have to be integrated.

Avago: silicon implant

There is a simple reason for investors' enthusiasm: it will be very accretive to the semiconductor group's earnings.

AIG / AerCap: come fly with me

Last major sale of non-core assets leaves bailed-out giant with a chance to make up some of the discounted price, but it is not a clean break.

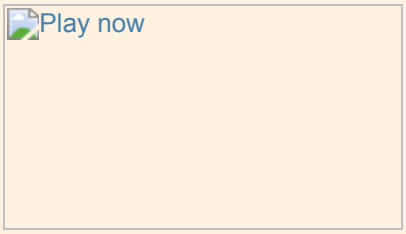
Ford: pressing the brakes

The US automaker's international operations did not seem so important. Until now.

Video of the week

AstraZeneca bets on diabetes

British pharmaceutical company AstraZeneca buys out venture partner Bristol-Myers Squibb from diabetes drug alliance, ticking two growth priorities – diabetes and growth in emerging markets. Lex's Joseph Cotterill and Vincent Boland discuss the developments.



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